

NEWS RELEASE: Embargoed until 09:00 (AEST) 3 September 2020

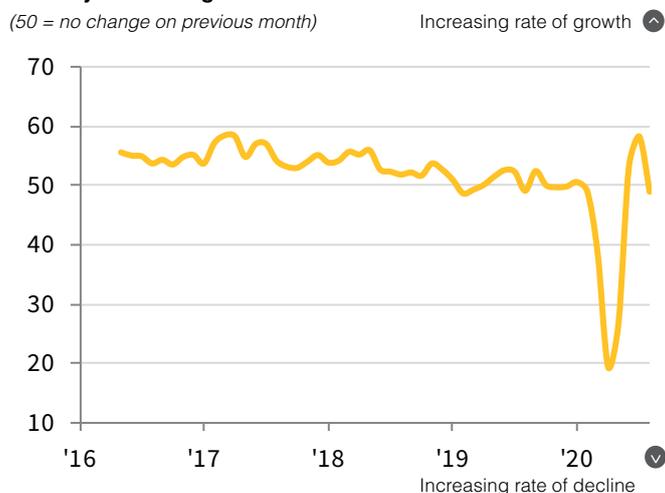
Services activity falls in August amid renewed COVID-19 measures



Key findings

Australian services business activity returned to a decline during August amid lockdown measures reimposed in Victoria following a surge in new COVID-19 infections. Demand was also adversely impacted, with new business inflows falling after two months of growth, which contributed to a development of spare capacity. Consequently, job shedding intensified. Input costs rose further, accompanied by an increase in selling prices.

Commonwealth Bank Services PMI[®] May 2016 – Aug 2020



The headline figure derived from the survey is the Commonwealth Bank of Australia Services Business Activity Index, which is designed to provide timely indications of changes in business activity in the Australian service sector. Readings above 50.0 signal an improvement in business activity on the previous month while readings below 50.0 show deterioration.

The seasonally adjusted Business Activity Index fell by nine points from 58.2 to 49.0 in August, indicating the first decrease in activity for three months.

Summary

Business Activity		Interpretation
Aug-20	49.0	Contraction, change of direction
Jul-20	58.2	Expansion, faster rate of growth

The implementation of new social distancing measures in Victoria was a principal factor weighing on Australian service sector activity in August. Following two months of solid growth, services activity fell modestly.

The hit to sales was more apparent, with total new business inflows declining at one of the fastest rates since the survey started over four years ago, though not as severe as seen during the initial impact of the pandemic. External demand continued to deteriorate. Foreign orders fell at the quickest rate since May. Anecdotal evidence pointed to enforced business closures in Victoria, suspended projects and greater uncertainty as factors behind the fall in orders.

Lower sales saw companies operate below their capacity, as reflected by a renewed drop in backlogs of work. This in turn weighed on hiring. Firms reduced staff numbers further and at the fastest rate for three months.

Average cost burdens increased further in August, with inflation driven by supplier price hikes, increased logistic fees, greater fuel costs and higher salaries. The rate of increase in input prices was the quickest since February. Higher expenses led firms to raise their selling prices in August, but greater competition and subdued sales constrained the extent to which charges can be increased.

Finally, longer-term prospects remained positive, although confidence slipped from July. Optimism was generally underpinned by expectations of the pandemic coming to an end in the months ahead.

Commonwealth Bank Composite PMI[®]

	Output	Interpretation
Aug-20	49.4	Contraction, change of direction
Jul-20	57.8	Expansion, faster rate of growth

The Commonwealth Bank Composite Output Index is a GDP-weighted average of the Commonwealth Bank Manufacturing Output Index and the Commonwealth Bank Services Business Activity Index. It is designed to provide a timely indication of changes in business activity in the Australian private sector economy as a whole. Readings above 50.0 signal an improvement in business activity on the previous month, while readings below 50.0 show deterioration.

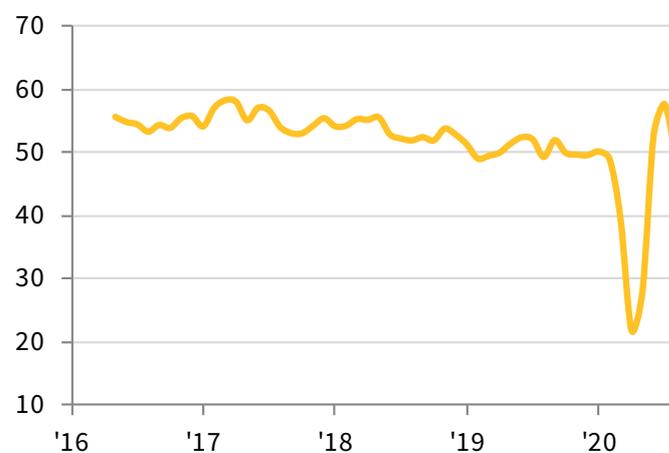
The seasonally adjusted Commonwealth Bank Composite Output Index dropped from 57.8 to 49.4 in August, indicating a decline in private sector business activity after two months of growth. The downturn was led by a renewed contraction in services activity, as manufacturing output increased further, albeit at a slower pace.

Commonwealth Bank Composite PMI[®]

May 2016 – Aug 2020

(50 = no change on previous month)

Increasing rate of growth 



Increasing rate of decline 

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About Commonwealth Bank Services PMI® and the Purchasing Managers' Index™ Report

The Commonwealth Bank has commissioned IHS Markit to conduct research and provide insights for this edition of the Commonwealth Bank Services PMI through the Purchasing Managers' Index Report. The Commonwealth Bank Services PMI is based on data compiled from monthly replies to questionnaires sent to a representative panel of purchasing executives in over 400 private sector services firms in Australia. The panel is stratified by GDP and company workforce size. The services sector is divided into the following five broad categories: Transport & Storage, Consumer Services, Information & Communication, Finance & Insurance and Real Estate & Business Services.

The early September releases of August data from the Commonwealth Bank Australia PMI series will be the final releases to carry Commonwealth Bank Australia branding.

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